

**CMP: Rs 118**

**Stock Info**

BSE	540775
NSE	KHADIM
Bloomberg	KHDM IN
Reuters	KHAD.BO
Sector	Footwear
Face Value (Rs)	10
Equity Capital (Rs mn)	180
Mkt Cap (Rs mn)	2,128
52w H/L (Rs)	281/ 65
Avg Yearly Vol (in 000')	108

**Shareholding Pattern %**

(As on June, 2020)

Promoters	60.83
FII	0.04
DII	20.19
Public & Others	18.94

**Stock Performance (%)**

	3m	6m	12m
Khadim	-27.4	24.4	-36.3
Nifty 500	14.5	10.5	8.3

**Khadim Vs Nifty 500**



Khadim India has reported another weak set of numbers during Q1FY21. Company has registered sharp fall in sales at 72% YoY/62% QoQ to Rs 604 mn, impacted due to Covid related lockdown. Gross profit of the Company declined by 78% YoY/64% QoQ to Rs 172 mn. Gross margin declined sharply to 28.5% from 36.5% YoY and 30% in Q4FY20. Material cost as a percentage of sales stood at 71.5% vs. 63.5% YoY/70% QoQ. Lower sales, decline in gross margin leading to EBITDA loss during the quarter. EBITDA loss during the quarter widened to Rs 143 mn from Rs 84 mn QoQ. Other income for the quarter increased sharply by 123% YoY to Rs 36 mn, on account of Rs 26 mn benefit from lease rent waiver/reduction. Loss for the quarter widened to Rs 278 mn as compared to Rs 199 mn loss in Q4FY20.

**Q1FY21 Segment Wise Performance:**

On Segmental basis, Retail business de-grew sharply by 82% YoY/78% QoQ to Rs 214 mn. Contribution of retail business in the total revenue came down to 35% from 62% QoQ. Distribution was relatively better than Retail and it has reported de-growth of 37% YoY/29% QoQ to Rs 375 mn. Distribution business revenue share stood at 62% vs. 33% QoQ.

**Key Takeaways from Conference Call:**

- Company is majorly focusing towards digital media and looking to build a strong presence in that platform. To further improve its online presence, Company has revamped its website with a modern & user-friendly interface. Company has tie-up with E-commerce channel such as Flipkart, Ajio, Amazon, Nyka and Snapdeal for product sales.
- Due to inability of customers to visit stores due to COVID 19 break-out, Company has taken a step to reach customers through campaign like "On the Go" - a store on wheels; "Hot Spots" - to disseminate Shoe Sanitizer & Masks and "Khadims Near Me" - exclusive shopping tents setup in residential areas.
- Company has taken several cost optimization strategy. Employee cost was down by 16% QoQ due to voluntarily salary reduction letter submitted by employee. Other expenses have fallen by 57% QoQ because of limited scale of operations as store was shut for 45 days during the quarter. So, there are some fixed costs that have not incurred in this quarter.
- Trend in May and June was slow. Footfalls started consolidating in June end and in July there was improvement seen in some numbers but owing to the lockdown in multiple states, there has been impact on overall sales. Management is hoping trend to be better in September due to removal of lockdown restrictions.
- Distribution business has performed well during the quarter and similar trend was seen in August also. By June end and July Company was functioning on 100% capacity. In Distribution business the demand is high but due to local lockdown production hamper.
- Demand of Hawaii and PVC products continued to remains high.
- At present, Company has total 796 retail stores and 581 distribution network. Company has a plan of closing 13 stores in next couple of quarters. There is no COCO store expansion plan for the current year. However, Company has a plan to open 25-30 franchise.
- In Distribution business company has taken two consecutive price hike in March and June month. So, there will be a 1-1.5% increase in gross margin. On QoQ basis, gross margin increased to 30.7% from 29.7% in distribution business.

**Outlook:** Khadim India Q1FY21 performance was weak, largely due to disruption caused by pandemic. However, after re-opening up of the economy with no lockdown restriction (except few states) and upcoming festive season, sales are expected to pick-up going forward. Company continues to focus on new market area, premiumization of products, E-commerce sales and strong brand recall. We believe near term outlook of the Company will remain challenging owing to weak consumer sentiment, low demand for luxury products, margin pressure due to lower retail sales and lower footfall. Currently, stock is trading at attractive valuation (at 10x FY19 PE) and we believe weak performance of the company is already priced in. The re-rating in the stock is likely to happen as soon as company shows some amount of recovery on business growth front.

### Quarterly Result Snapshot

Particulars (in mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Sales	604.0	2160.7	-72%	1582.2	-62%
COGS	431.9	1371.4	-69%	1108.3	-61%
Gross Profit	172.1	789.3	-78%	473.9	-64%
Gross Margin (%)	28.5%	36.5%	-803bps	30.0%	-145bps
Employee Cost	153.3	178.5	-14%	183.3	-16%
Other Expenses	161.5	411.1	-61%	374.9	-57%
EBITDA	-142.7	199.7	NA	-84.3	NA
EBITDA Margin (%)	-23.6%	9.2%		-5.3%	
Depreciation	102.4	98.7	4%	107.9	-5%
Interest	64.6	64.9	0%	77.7	-17%
Other Income	36.3	16.3	123%	15.4	135%
PBT	-273.4	52.4	NA	-254.4	NA
Tax	4.1	18.9		-55.7	
PAT	-277.6	33.5	NA	-198.8	NA

### Segment Wise Performance

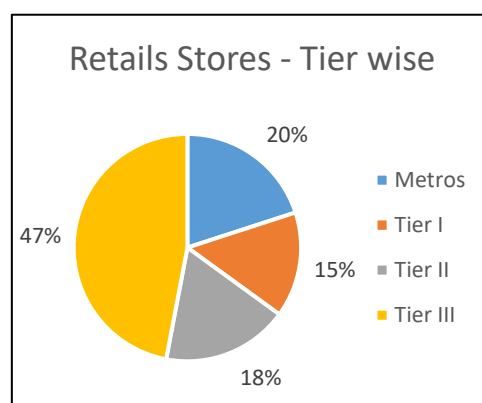
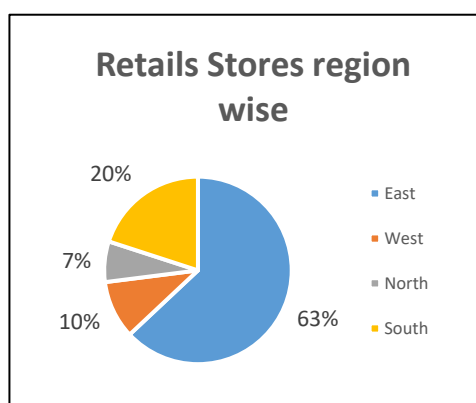
Revenue Share (in mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Retail Business	214	1201	-82%	983	-78%
% Revenue	35.4	55.6		62.1	
Distribution	375	598	-37%	528	-29%
% Revenue	62.1	27.7		33.4	
Others	15	362	-96%	71	-79%
% Revenue	2.5	16.7		4.5	
Total Revenue	604	2161	-72%	1582	-62%

Segment wise Gross Margin	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Retail Business	44.4%	45.8%	-140bps	42.6%	180bps
Distribution	30.7%	29.3%	140bps	29.7%	100bps

Segment wise EBITDA Margin	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Retail Business	-20.9%	11.2%	-	-5.1%	-
Distribution	-16.3%	8.3%	-	-5.6%	-

### Stores Network

As on June' 2020	
Retail Stores	796
- COCO	223
- Franchise	573
Distributors	581



## Key Financial

### Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20
<b>Revenues</b>	<b>7,487</b>	<b>7,992</b>	<b>7,719</b>
Change (%)	22.6%	6.7%	-3.4%
Cost of Goods Sold	4,653	4,965	4,912
Employee costs	652	721	733
Other expenses	1,425	1,737	1,769
Total operating Expense	<b>6,730</b>	<b>7,422</b>	<b>7,414</b>
<b>EBITDA</b>	<b>757</b>	<b>570</b>	<b>305</b>
Other Income	93	63	67
Depreciation	156	184	419
Interest	124	116	293
<b>PBT</b>	<b>570</b>	<b>332</b>	<b>-341</b>
Extra-ordinary	0	0	0
<b>PBT after ext-ord.</b>	<b>570</b>	<b>332</b>	<b>-341</b>
Tax	191	120	-28
Rate (%)	33.5%	36.2%	8.3%
<b>PAT</b>	<b>379</b>	<b>212</b>	<b>-313</b>
Change (%)	23.7%	-44.1%	NA

Source: Company, Arianth Research

### Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20
<b>Per share (Rs)</b>			
EPS	21.1	11.8	-17.4
CEPS	29.8	22.0	5.9
BVPS	149.4	160.1	129.9
<b>Valuation (x)</b>			
P/E	5.7	10.1	-6.9
P/CEPS	4.0	5.4	20.1
P/BV	0.8	0.7	0.9
<b>Return Ratios (%)</b>			
Gross Margin	37.9%	37.9%	36.4%
EBIDTA Margin	10.1%	7.1%	3.9%
PAT Margin	5.1%	2.7%	-4.1%
ROE	14.1%	7.4%	-13.4%
ROCE	17.6%	9.6%	-3.3%
<b>Leverage Ratio (%)</b>			
Total D/E	0.3	0.4	0.5
<b>Turnover Ratios</b>			
Asset Turnover (x)	1.5	1.5	1.1
Inventory Days	99	114	126
Receivable Days	62	61	56
Payable days	102	97	118

Source: Company, Arianth Research

### Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20
<b>Sources of Funds</b>			
Share Capital	180	180	180
Reserves & Surplus	2,505	2,697	2,155
<b>Net Worth</b>	<b>2,685</b>	<b>2,877</b>	<b>2,335</b>
Long term debt	0	0	0
Short term debt	685	1,090	1,161
<b>Total Debt</b>	<b>685</b>	<b>1,090</b>	<b>1,161</b>
Non Current Liabilities	63	58	1,713
Current liabilities	1,464	1,472	1,777
<b>Total Liabilities</b>	<b>4,897</b>	<b>5,498</b>	<b>6,985</b>
<b>Application of Funds</b>			
Net Block	1,246	1,308	1,300
Other Non-Current Assets	27	26	1,478
<b>Net fixed assets</b>	<b>1,273</b>	<b>1,334</b>	<b>2,777</b>
Deferred/Income tax assets	3	26	151
Other Non-Current Assets	426	420	291
Current Assets	2,691	2,977	2,966
Other Current Assets	504	741	799
<b>Total Assets</b>	<b>4,897</b>	<b>5,498</b>	<b>6,985</b>

### Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20
Cash Flow From Operating Activities	141	-107	571
Cash Flow From Investing Activities	-59	-154	-151
Free cash flow (FCF)	-76	-356	407
Cash flow from financing activities	397	-171	-258
<b>Net inc /(dec) in cash</b>	<b>478</b>	<b>-432</b>	<b>162</b>
Opening balance of cash	-828	-350	-782
<b>Closing balance of cash</b>	<b>-350</b>	<b>-782</b>	<b>-620</b>

Source: Company, Arianth Research

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880